



6450-01-P

## **DEPARTMENT OF ENERGY**

### **Western Area Power Administration**

#### **Boulder Canyon Project**

**AGENCY:** Western Area Power Administration, DOE.

**ACTION:** Notice of Base Charge and Rates.

**SUMMARY:** In this notice, the Deputy Secretary of Energy (Deputy Secretary) approves the Fiscal Year (FY) 2015 Base Charge and Rates for Boulder Canyon Project (BCP) electric service provided by the Western Area Power Administration (Western). The Base Charge will provide sufficient revenue to pay all annual costs, including interest expense, and repay investments within the allowable period.

**DATES:** The revised Base Charge and Rates will be effective the first day of the first full billing period beginning on or after October 1, 2014, and will stay in effect through September 30, 2015, or until superseded.

**FOR FURTHER INFORMATION CONTACT:** Mr. Jack Murray, Rates Manager, Desert Southwest Customer Service Region, Western Area Power Administration, P.O. Box 6457, Phoenix, AZ 85005-6457, (602) 605-2442, e-mail [jmurray@wapa.gov](mailto:jmurray@wapa.gov).

**SUPPLEMENTARY INFORMATION:** Hoover Dam, authorized by the Boulder Canyon Project Act (45 Stat. 1057, December 21, 1928), sits on the Colorado River along the Arizona and Nevada border. The Hoover Dam powerplant has 19 generating units (two for plant use) and an installed capacity of 2,078,800 kilowatts (kW) (4,800 kW for plant use). High-voltage transmission lines and substations connect BCP power to consumers in southern Nevada,

Arizona, and southern California. BCP electric service rates are adjusted annually using an existing rate formula established on April 19, 1996. The rate formula requires the BCP contractors to pay a Base Charge (expressed in dollars), rather than a rate, for their power. The Base Charge is calculated to generate sufficient revenue to cover all annual costs and to repay investment obligations within allowable time periods. The Base Charge is allocated to each BCP Contractor in proportion to its allocation of Hoover power. A BCP composite power rate, expressed in mills per kilowatt-hour (mills/kWh), can be inferred by dividing the Base Charge by energy sales in the year; however, the rate is not used to determine customers' bills.

Rate Schedule BCP-F8, Rate Order No. WAPA-150, effective October 1, 2010, through September 30, 2015, allows for an annual recalculation of the Base Charge and Rates.<sup>1</sup> This notice sets forth the recalculation for FY 2015. Under Rate Schedule BCP-F8, the existing composite rate, effective on October 1, 2013, is 20.18 mills/kWh. The current Base Charge is \$76,108,019, the energy rate is 10.09 mills/kWh, and the capacity rate is \$1.87 per kilowatt-month (kW-month).

The recalculated Base Charge for BCP electric service, effective October 1, 2014, is \$61,008,518, an approximate 20 percent decrease from the FY 2014 Base Charge. The major contributing factor to the decrease is from the FY 2012 costs being lower than expected allowing additional funds to be carried over into FY 2013. FY 2013 costs were also lower than anticipated and other revenues from the Hoover Dam Visitor Center and Ancillary Services, which are used to offset costs to be recovered from power customers, were higher than expected. In addition, the BCP Contractors paid off the Visitor Facilities and Air Slots capitalized

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<sup>1</sup> FERC confirmed and approved Rate Schedule BCP-F8 on a final basis on December 9, 2010, in Docket No. EF10-7-000, *See United States Department of Energy, Western Area Power Administration, Boulder Canyon Project*, 133 FERC ¶ 62,229 (December 9, 2010).

investment debt in FY 2014, which allowed additional funds from interest savings to be carried over into FY 2015, thus making it possible for the FY 2015 Base Charge to be reduced significantly from the current level. The FY 2015 composite rate of 16.28 mills/kWh is a decrease of approximately 19 percent compared to the FY 2014 BCP composite rate of 20.18 mills/kWh. The FY 2015 energy rate of 8.14 mills/kWh is a decrease of approximately 19 percent compared to the existing energy rate of 10.09 mills/kWh. The FY 2015 capacity rate of \$1.61/kW-month is a decrease of approximately 14 percent compared to the existing capacity rate of \$1.87/kW-month. FY 2015 Energy and Capacity sales have decreased compared with FY 2014, due to a forecast of continued poor hydrological conditions resulting in lower lake elevation. Although the energy and capacity sales for FY 2015 are decreasing, the significant decrease in the revenue requirement for FY 2015 results in a decrease to the composite and energy and capacity rates. The proposed rates were calculated using Western's FY 2014 Final Master Schedule, which provides the FY 2015 projections for energy and capacity sales.

The following summarizes the steps taken by Western to ensure involvement of all interested parties in determining the Base Charge and Rates:

1. A Federal Register notice was published on February 5, 2014 (79 FR 6896), announcing the proposed rate adjustment process, initiating a public consultation and comment period, announcing public information and public comment forums, and presenting procedures for public participation.
2. Discussion of the proposal was initiated at an informal BCP Contractor meeting held March 5, 2014, in Phoenix, Arizona. At this informal meeting, representatives from Western and

the Bureau of Reclamation (Reclamation) explained the basis for the estimates used to calculate the Base Charge and Rates and held a question and answer session.

3. At the public information forum held on March 26, 2014, in Phoenix, Arizona, Western and Reclamation representatives explained the proposed Base Charge and Rates for FY 2015 in greater detail and held a question and answer session.
4. A public comment forum held on April 16, 2014, in Phoenix, Arizona, provided the public with an opportunity to comment for the record. Two individuals commented at this forum.
5. Western received one comment letter during the 90-day consultation and comment period. The consultation and comment period ended May 6, 2014. The written comments were received from the following interested party representing various customers of the BCP Contractors:

- Irrigation & Electrical Districts Association of Arizona, Phoenix, Arizona.

Comments and responses, paraphrased for brevity when not affecting the meaning of the statements, are presented below.

Comment: A commenter expressed an on-going concern regarding requests for clarity and a better understanding of how Western's Corporate Service Office (CSO) costs are allocated to Western's projects, including the BCP, and requests further discussions on the subject. The commenter also expressed disquiet for the escalation in system-wide expenses, how it is calculated and allocated to BCP. The commenter requests Western provide an explanation of how these costs are allocated to BCP.

Response: The process for allocating CSO costs (overhead) to Western's projects is basically accomplished through two primary methods. The first method is through General Western

Allocation (GWA) overhead costs which are distributed to the regions through a percentage calculation by individual regional full time equivalent (FTE) count divided by total regional FTE count. Then Desert Southwest Customer Service Region (DSW) distributes that portion to its individual projects through a percentage calculation determined by number of direct labor hours charged to each individual project divided by total direct labor hours. In addition to the method GWA is allocated, Western's other overhead costs are allocated to projects through various burden rates (administrative, construction, and operation and maintenance). The burden rates are allocated to each project through direct labor charges which are calculated based on which customers benefit from the work being performed. Western's CSO Chief Finance Office gave a presentation on May 21, 2014, at the BCP Engineering and Operation Committee quarterly meeting demonstrating the process mentioned above and how CSO's costs are allocated to Western's regions. Western's goal was to give the customers another opportunity to clarify any questions and give a better understanding of this cost allocation process.

Regarding the escalation of system-wide expenses, primarily two budget items contribute to the increases, system operations and load dispatching and power marketing costs. In 2011, a re-evaluation of the workload in Western's dispatch centers was undertaken to more accurately reflect the work being performed. The study results changed the budget allocation method for system operation and load dispatching to Western's power systems. During the period of September 10-20, 2011, Western presented to its customers the revised cost allocation methodology that impacted system-wide costs for all Western projects, including BCP, beginning in FY 2014. The revised allocations, based on nameplate generator capacity or transmission line miles, did not cause an increase in total costs, but the re-allocation resulted in

some projects, including BCP being allocated a larger percentage of those costs than they had in the past. From a total regional perspective, DSW's share of the system operation and load dispatch costs remained relatively stable. The power marketing costs are increasing due to the post-2017 remarketing process which Western has addressed in its annual rate process.

### **BCP Electric Service Rates**

BCP Base Charge and the resulting calculated Rates for electric service are designed to recover an annual revenue requirement that includes operation and maintenance expenses, payments to states, visitor services, the uprating program, replacements, investment repayment, and interest expense. Western's power repayment study (PRS) allocates the projected annual revenue requirement for electric service equally between capacity and energy.

### **Availability of Information**

Information about this Base Charge and Rate adjustment, including the PRS, comments, letters, memorandums, and other supporting material developed or maintained by Western and used to develop the FY 2015 BCP Base Charge and Rates is available for public review at the Desert Southwest Customer Service Regional Office, Western Area Power Administration, 615 South 43<sup>rd</sup> Avenue, Phoenix, AZ 85009. The information is also available on Western's website at [www.wapa.gov/dsw/pwrmt/BCP/RateAdjust.htm](http://www.wapa.gov/dsw/pwrmt/BCP/RateAdjust.htm).

### **Ratemaking Procedure Requirements**

BCP electric service rates are developed under the Department of Energy Organization Act (42 U.S.C. 7101-7352), through which the power marketing functions of the Secretary of the Interior and Reclamation under the Reclamation Act of 1902 (ch. 1093, 32 Stat. 388), as amended and supplemented by subsequent enactments, particularly section 9(c) of the

Reclamation Project Act of 1939 (43 U.S.C. 485h(c)), and other acts that specifically apply to the project involved, were transferred to and vested in the Secretary of Energy, acting by and through Western.

By Delegation Order No. 00-037.00A, effective October 25, 2013, the Secretary of Energy delegated: (1) the authority to develop long-term power and transmission rates on a non-exclusive basis to Western's Administrator; (2) the authority to confirm, approve, and place such rates into effect on an interim basis to the Deputy Secretary; and (3) the authority to confirm, approve, and place into effect on a final basis, to remand, or to disapprove such rates to the Federal Energy Regulatory Commission (FERC). Existing Department of Energy procedures for public participation in electric service rate adjustments are located at 10 CFR part 903, effective September 18, 1985 (50 FR 37835). Department of Energy procedures were followed by Western in developing the rate formula approved by FERC on December 9, 2010, at 133 FERC ¶ 62,229.<sup>2</sup>

The Boulder Canyon Project Implementation Agreement (BCPIA) requires that Western determine the annual base charge and rates for the next fiscal year before October 1 of each rate year. The rates for the first rate year, and each fifth rate year thereafter, become effective provisionally upon approval by the Deputy Secretary and subject to final approval by FERC. For all other rate years, the rates become effective on a final basis upon approval by the Deputy

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<sup>2</sup> The existing rate-setting formula was established in Rate Schedule BCP-F5 (Rate Order No. WAPA-70) on April 19, 1996, in Docket No. EF96-5091-000, at 75 FERC ¶ 62,050, for the period beginning November 1, 1995, and ending September 30, 2000. Rate Schedule BCP-F6 (Rate Order No. WAPA-94, extending the existing rate-setting formula beginning on October 1, 2000, and ending September 30, 2005), was approved on July 31, 2001, in Docket No. EF00-5092-000, at 96 FERC ¶ 61,171. Rate Schedule BCP-F7 (Rate Order No. WAPA-120, extending the existing rate-setting formula for another five-year period beginning on October 1, 2005, and ending September 30, 2010), was approved on June 22, 2006, in Docket No. EF05-5091-000 at 115 FERC ¶ 61,362. Rate Schedule BCP-F8 (Rate Order No. WAPA-150, extending the existing rate-setting formula for another five-year period beginning on October 1, 2010), was approved on December 9, 2010, in Docket No. EF10-7-000 at 133 FERC ¶ 62,229.

Secretary. Because FY 2015 is an interim year, these rates become effective on a final basis upon approval by the Deputy Secretary.

Western will continue to provide annual rates to the BCP Contractors by October 1 of each year using the same rate-setting formula. In accordance with 10 CFR part 904, effective June 1, 1987 (57 FR 43154), and the BCPIA, the rates are reviewed annually and adjusted upward or downward to assure sufficient revenues are collected to achieve payment of all costs and financial obligations associated with the project. Each fiscal year, Western prepares a PRS for the BCP to update actual revenues and expenses, including interest, estimates of future revenues, operating expenses, and capitalized costs.

The BCP rate-setting formula includes a base charge, an energy rate, and a capacity rate. The rate-setting formula was used to determine the BCP FY 2015 Base Charge and Rates.

Western proposed a FY 2015 Base Charge of \$61,008,518, an energy rate of 8.14 mills/kWh, and a capacity rate of 1.61/kW-month.

Consistent with procedures set forth in 10 CFR part 903 and 904 and 18 CFR part 300, Western held a consultation and comment period. The notice of the proposed FY 2015 Base Charge and Rates for electric service was published in the Federal Register on February 5, 2014 (79 FR 6896).



Under Delegation Order Nos. 00-037.00A and 00-001.00C, and in compliance with 10 CFR part 903, I hereby approve the FY 2015 Base Charge and Rates for BCP Electric Service on a final basis under Rate Schedule BCP-F8 through September 30, 2015.

Issued in Washington DC, on August 7, 2014.

Daniel B. Poneman,  
Deputy Secretary of Energy.

**[FR Doc. 2014-19128 Filed 08/12/2014 at 8:45 am; Publication Date: 08/13/2014]**